

**REPORT OF THE AUDIT OF THE  
MAGOFFIN COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**July 2, 2003**



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**CRIT LUALLEN**  
**Auditor of Public Accounts**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Bill W. May, Magoffin County Judge/Executive  
Honorable Randall Jordan, Magoffin County Sheriff  
Members of the Magoffin County Fiscal Court

The enclosed report prepared by Morgan-Franklin, LLC, Certified Public Accountants, presents the Magoffin County Sheriff's Settlement - 2002 Taxes as of July 2, 2003.

We engaged Morgan-Franklin, LLC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Morgan-Franklin, LLC evaluated the Magoffin County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure





**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
MAGOFFIN COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**July 2, 2003**

Morgan-Franklin, LLC has completed the audit of the Sheriff's Settlement - 2002 Taxes for the Magoffin County Sheriff as of July 2, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$654,625 for the districts for 2002 taxes, retaining commissions of \$27,127 to operate the Sheriff's office. The Sheriff distributed taxes of \$636,357 to the districts for 2002 Taxes. Taxes of \$2,002 are due to the districts from the Sheriff and refunds of \$36 are due to the Sheriff from the taxing districts.

**Report Comments:**

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$12,841 To Protect Deposits
- Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were not fully collateralized by bank securities or bonds.



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**West Liberty, Kentucky 41472**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Bill W. May, Magoffin County Judge/Executive  
Honorable Randall Jordan, Magoffin County Sheriff  
Members of the Magoffin County Fiscal Court

Independent Auditor's Report

We have audited the Magoffin County Sheriff's Settlement - 2002 Taxes as of July 2, 2003. This tax settlement is the responsibility of the Magoffin County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Magoffin County Sheriff's taxes charged, credited, and paid as of July 2, 2003, in conformity with the modified cash basis of accounting.

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Bill W. May, Magoffin County Judge/Executive  
Honorable Randall Jordan, Magoffin County Sheriff  
Members of the Magoffin County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated November 26, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$12,841 To Protect Deposits
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC

Audit fieldwork completed -  
November 26, 2003

MAGOFFIN COUNTY  
 RANDALL JORDAN, MAGOFFIN COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2002 TAXES

July 2, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Transferred To Incoming Sheriff	\$ 175,928	\$ 108,295	\$ 268,176	\$ 84,342
Omitted Taxes	902	569	1,426	421
Franchise Corporation	9,542	4,618	10,561	
Additional Billings	806	508	1,264	373
Unmined Coal - 2002 Taxes	17,400	10,964	27,292	8,045
Oil and Gas Property Taxes	30,400	19,156	47,682	14,055
Penalties	4,890	3,059	7,610	2,277
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Gross Chargeable to Sheriff	\$ 239,868	\$ 147,169	\$ 364,011	\$ 109,513
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<u>Credits</u>				
Exonerations	\$ 1,073	\$ 676	\$ 1,683	\$ 496
Discounts	784	497	1,230	363
Delinquents:				
Real Estate	43,556	27,446	68,318	20,137
Tangible Personal Property	3,832	1,655	3,613	3,217
Intangible Personal Property				139
Unmined Coal - 2002 Taxes	3,819	2,406	5,990	1,766
Uncollected Franchise	5,488	2,421	5,331	
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Total Credits	\$ 58,552	\$ 35,101	\$ 86,165	\$ 26,118
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Taxes Collected	\$ 181,316	\$ 112,068	\$ 277,846	\$ 83,395
Less: Commissions *	7,706	4,763	11,114	3,544
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Taxes Due	\$ 173,610	\$ 107,305	\$ 266,732	\$ 79,851
Taxes Paid	173,309	106,761	276,390	79,897
State Penalty				45
Refund of School Commissions			(11,060)	
Refunds (Current and Prior Year)	77	48	120	35
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Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	\$ 224	\$ 496	\$ 1,282	\$ (36)
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\* and \*\* See Page 4.

The accompanying notes are an integral part of this financial statement.

MAGOFFIN COUNTY  
RANDALL JORDAN, MAGOFFIN COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2002 TAXES  
July 2, 2003  
(Continued)

\* Commissions:

4% on	\$	277,831
4.25% on	\$	376,757

\*\* Special Taxing Districts:

Library District	\$	127
Health District		139
Extension District		184
Watershed District		<u>46</u>
Due Districts	\$	<u><u>496</u></u>

MAGOFFIN COUNTY  
NOTES TO FINANCIAL STATEMENTS

July 2, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of February 7, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$12,841 of public funds uninsured and unsecured.

MAGOFFIN COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 July 2, 2003  
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of February 7, 2003.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	135,000
Uncollateralized and uninsured	<u>12,841</u>
Total	<u>\$ 247,841</u>

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 6, 2003 through July 2, 2003.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2002. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 23, 2003 through July 2, 2003.

Note 4. Interest Income

The Magoffin County Sheriff earned \$85 as interest income on 2002 taxes. As of November 26, 2003, the Sheriff owes \$35 in interest to the school district and \$50 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Magoffin County Sheriff collected \$14,904 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

MAGOFFIN COUNTY  
NOTES TO FINANCIAL STATEMENT  
July 2, 2003  
(Continued)

Note 6. Advertising Costs And Fees

The Magoffin County Sheriff collected \$684 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The advertising fees were used to operate the Sheriff's office.

Note 7. Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2002 taxes, the Sheriff had \$127 in unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

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## COMMENTS AND RECOMMENDATIONS



MAGOFFIN COUNTY  
RANDALL JORDAN, MAGOFFIN COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

As of July 2, 2003

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$12,841 To Protect Deposits

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On February 7, 2003, \$12,841 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*Sheriff's Response:*

*This will be monitored more closely.*

INTERNAL CONTROL - REPORTABLE CONDITIONS:

Lacks Adequate Segregation Of Duties

During our audit we noted the Sheriff's internal control structure lacked an adequate segregation of duties. This deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. In our judgment, this condition could adversely affect the Sheriff's ability to record, process, summarize, and report accurate financial information.

We recommend the Sheriff obtain additional staff to divide the responsibilities or implement the following compensating controls that would help offset the lack of adequate segregation of duties:

- Cash periodically recounted and deposited by the Sheriff
- Periodic reconciliation of reports to source documents and receipts and disbursements ledgers by the Sheriff
- All disbursement checks are to be signed by two people and one must be the Sheriff
- All disbursements checks prepared by an employee are examined by the Sheriff for proper documentation
- The Sheriff mails disbursements
- The Sheriff or someone independent of the Sheriff's Office prepares bank reconciliations

*Sheriff's Response:*

*There will be two signatures on checks after January 2004.*

PRIOR YEAR:

None.

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



**Morgan-Franklin, LLC**  
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**P.O. Box 428**  
**West Liberty, Kentucky 41472**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Bill May, Magoffin County Judge/Executive  
Honorable Randall Jordan, Magoffin County Sheriff  
Members of the Magoffin County Fiscal Court

**Report On Compliance And On Internal Control**  
**Over Financial Reporting Based On An Audit Of The Financial**  
**Statement Performed In Accordance With Government Auditing Standards**

We have audited the Magoffin County Sheriff's Settlement - 2002 Taxes as of July 2, 2003, and have issued our report thereon dated November 26, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Magoffin County Sheriff's Settlement -2002 Taxes as of July 2, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$12,841 To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Magoffin County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC

Audit fieldwork completed -  
November 26, 2003



